Anheuser-Busch InBev (ABI.BR)

Rating	**NEUTRAL***
Price (06 Jul 12, Eu)	62.85
Target price (Eu)	(from 56.00) 67.00[1]
Market cap. (Eu m)	100,956.87
Enterprise value (US$ m)	180,697.1

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

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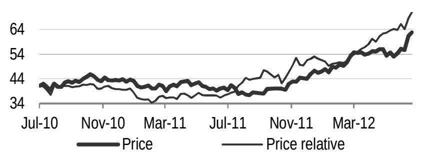
COMMENT

$800m synergy upside to Modelo, but priced in

- **Retain Neutral, adjusting for Modelo:** Following the agreed acquisition of Grupo Modelo, we raise our 2013-16 estimates by 4-9%, adjusting for the 8-12% eps accretion less c3% underlying downgrades due to a weaker volume outlook in Brazil following the announcement of excise duty rises and a weaker Brazilian real. Despite a potential $800m upside to synergies (c5% FY16E EPS impact), we remain Neutral as the stock now trades at a c10% FY13E P/E premium to peers on a normalised tax basis. We raise our TP to €67 (from €56), largely impacted by recent FX moves (€/$ and BRL/$)
- **$800m upside to synergy target:** We believe the Grupo Modelo acquisition presents many opportunities including i) scope for c$300m incremental cost savings, with potential for brewery rationalisation, ii) a $350m profit opportunity from replicating the recent global rollout of Budweiser with the Corona brand, iii) scope to further leverage ABI's brands in Mexico, which have accumulated just 1% market share in c20 years ($125m opportunity), iv) scope to extend ABI's relationship with Pepsi to Mexico given the high overlap between beer and CSD points of sale and Pepsi's weak distribution and, v) a potentially more rational US import pricing environment which could help protect mainstream beer volumes.
- **But we remain Neutral for three reasons:** i) We believe ABI potentially needs to invest more in its brands in the US to achieve sustainable volume growth; ii) the Brazilian outlook is slowing iii) upside is increasingly priced in.
- **Catalysts:** Q2 results on 30 July; potential US anti-trust news flow.
- **Upside priced in:** ABI trades on a FY13E P/E of 15.0x (or 16.1x at a normalised 25% tax rate, a 10% premium to the staple sector). We continue to prefer SABMiller given its stronger long-term organic growth potential.

Share price performance



The price relative chart measures performance against the BEL-20 INDEX which closed at 2203.48 on 06/07/12
On 06/07/12 the spot exchange rate was Eu .81 /US$1

Performance Over	1M	3M	12M
Absolute (%)	15.6	17.0	55.8
Relative (%)	10.6	17.5	68.7

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
Revenue (US$ m)	39,045.0	39,801.0	48,820.8	51,913.7
EBITDA (US$ m)	15,357.00	15,765.43	19,054.23	20,564.89
Adjusted Net Income (US$ m)	6,449.4	7,411.1	8,321.0	9,065.6
CS adj. EPS (US$)	4.00	4.58	5.13	5.58
Prev. EPS (US$)	—	4.65	4.93	5.26
ROIC (%)	13.56	13.71	15.42	16.15
P/E (adj., x)	19.32	16.85	15.04	13.84
P/E rel. (%)	139.2	140.3	138.2	139.8
EV/EBITDA	11.9	11.5	10.0	9.0

Dividend (12/12E, US$)	2.29	IC (12/12E, US$ m)	77,927.80
Dividend yield (%)	3.0	EV/IC	2.3
Net debt (12/12E, US$ m)	30,059.8	Current WACC	8.0
Net debt/equity (12/12E, %)	62.8	Free float (%)	47.5
BV/share (12/12E, US$)	27.5	Number of shares (m)	1,606.31

Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.

Anheuser-Busch InBev ABI.BR

Price (06 Jul 12): **Eu62.85**, Rating**: NEUTRAL**, Target Price: **Eu67.00 (from Eu56.00)**

Income statement (US$ m)	**12/11A**	**12/12E**	**12/13E**	**12/14E**
Sales revenue	**39,045**	**39,801**	**48,821**	**51,914**
EBITDA	**15,357**	**15,765**	**19,054**	**20,565**
Depr. & amort.	(2,750)	(2,762)	(3,247)	(3,452)
EBIT (CS)	**12,607**	**13,003**	**15,807**	**17,112**
Net interest exp.	(2,597)	(1,870)	(2,056)	(1,806)
Associates	623	690	—	—
Other adj,	(540)	—	—	—
PBT (CS)	**10,093**	**11,824**	**13,751**	**15,307**
Income taxes	(1,856)	(2,110)	(2,888)	(3,521)
Profit after tax	**8,237**	**9,713**	**10,864**	**11,786**
Minorities	(2,104)	(2,311)	(2,542)	(2,720)
Preferred dividends	—	—	—	—
Associates & other	316	9	—	—
Net profit (CS)	**6,449**	**7,411**	**8,321**	**9,066**
Other NPAT adjustments	(594)	15	—	—
Reported net income	**5,855**	**7,426**	**8,321**	**9,066**

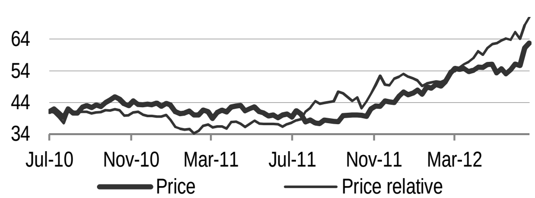
Cash flow (US$)	**12/11A**	**12/12E**	**12/13E**	**12/14E**
EBIT	12,607	13,003	15,807	17,112
Net interest	(2,304)	(1,713)	(1,756)	(1,506)
Cash taxes paid	—	—	—	—
Change in working capital	(293)	699	(375)	(136)
Other cash & non-cash items	764	(1,394)	(531)	(1,911)
Operating cashflow	**10,774**	**10,595**	**13,144**	**13,560**
CAPEX	(3,376)	(3,284)	(3,906)	(4,153)
Free cash flow	**7,398**	**7,312**	**9,239**	**9,407**
Acquisitions	(504)	(1,237)	(15,885)	—
Divestments	613	—	—	—
Other investment/(outflows)	536	—	—	—
Cash flow from investments	**(2,731)**	**(4,521)**	**(19,791)**	**(4,153)**
Net share issue/(repurchase)	155	—	300	300
Dividends paid	(1,716)	(2,526)	(3,662)	(4,523)
Other	(1,505)	—	—	—
Cash flow from financing	**(3,066)**	**(2,526)**	**(3,362)**	**(4,223)**
Effect of exchange rates	—	—	—	—
Total cashflow	**4,977**	**3,548**	**(10,008)**	**5,184**
.				
Net debt at start	40,383	34,845	30,060	39,826
Change in net debt	**(5,538)**	**(4,785)**	**9,766**	**(5,184)**
Net debt at end	34,845	30,060	39,826	34,642

Balance sheet (US$ m)	**12/11A**	**12/12E**	**12/13E**	**12/14E**
Assets				
Cash and cash equivalents	5,320	5,320	5,320	5,320
Accounts receivable	4,433	4,519	5,543	5,894
Inventory	2,466	2,514	3,083	3,279
Other current assets	104	104	104	104
Total current assets	**12,323**	**12,457**	**14,050**	**14,597**
Total fixed assets	16,022	17,781	25,939	26,640
Intangible assets and goodwill	75,120	75,120	77,220	77,220
Investment securities	—	—	—	—
Other assets	8,962	9,167	2,266	2,266
Total assets	**112,427**	**114,524**	**119,475**	**120,722**
Liabilities				
Accounts payable	13,337	13,595	15,553	16,435
Short-term debt	5,567	2,019	2,019	2,019
Other short term liabilities	740	740	740	740
Total current liabilities	**19,644**	**16,354**	**18,312**	**19,194**
Long-term debt	34,598	33,361	43,127	37,943
Other liabilities	17,141	16,941	16,741	16,541
Total liabilities	**71,383**	**66,656**	**78,180**	**73,678**
Shareholders' equity	37,492	43,885	36,724	41,966
Minority interest	3,552	3,983	4,456	4,963
Total equity & liabilities	**112,427**	**114,524**	**119,360**	**120,607**
Net debt (US$ m)	34,845	30,060	39,826	34,642

Per share data	**12/11A**	**12/12E**	**12/13E**	**12/14E**
No. of shares (wtd avg)	1,614	1,617	1,621	1,625
CS adj. EPS (US$)	**4.00**	**4.58**	**5.13**	**5.58**
Prev. EPS (US$)	—	4.65	4.93	5.26
Dividend (US$)	1.58	2.29	2.82	3.35
Dividend payout ratio	39.64	50.00	55.00	60.00
Free cash flow per share	4.58	4.52	5.70	5.79

Key ratios and valuation	**12/11A**	**12/12E**	**12/13E**	**12/14E**
Growth(%)				
Sales	7.6	1.9	22.7	6.3
EBIT	12.9	3.1	21.6	8.3
Net profit	28.0	14.9	12.3	8.9
EPS	27.7	14.7	12.0	8.7
Margins (%)				
EBITDA margin	39.3	39.6	39.0	39.6
EBIT margin	32.3	32.7	32.4	33.0
Pretax margin	25.9	29.7	28.2	29.5
Net margin	16.5	18.6	17.0	17.5
Valuation metrics (x)				
EV/sales	4.7	4.5	3.9	3.6
EV/EBITDA	11.9	11.5	10.0	9.0
EV/EBIT	14.5	13.9	12.0	10.8
P/E	19.3	16.8	15.0	13.8
P/B	3.3	2.8	3.4	3.0
Asset turnover	0.35	0.35	0.41	0.43
ROE analysis (%)				
ROE stated-return on	16.1	18.3	20.6	23.0
ROIC	13.6	13.7	15.4	16.2
Interest burden	0.80	0.91	0.87	0.89
Tax rate	18.9	17.8	21.0	23.0
Financial leverage	3.0	2.6	3.3	2.9
Credit ratios (%)				
Net debt/equity	84.9	62.8	96.7	73.8
Net debt/EBITDA	226.9	190.7	209.0	168.5
Interest coverage ratio	4.9	7.0	7.7	9.5

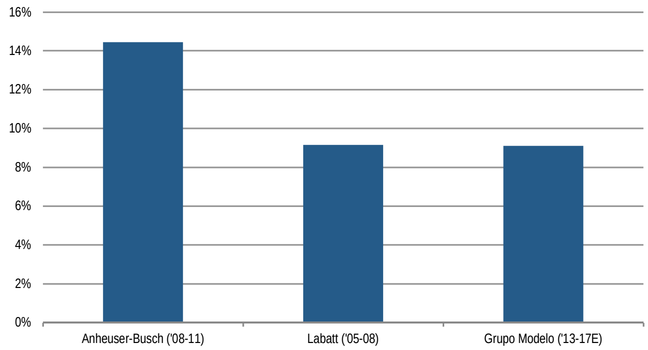
Source: FTI, Company data, Thomson Reuters, Credit Suisse Securities (EUROPE) LTD. Estimates.



The price relative chart measures performance against the BEL-20 INDEX which closed at 2203.48 on 06/07/12
On 06/07/12 the spot exchange rate was Eu .81 /US$1

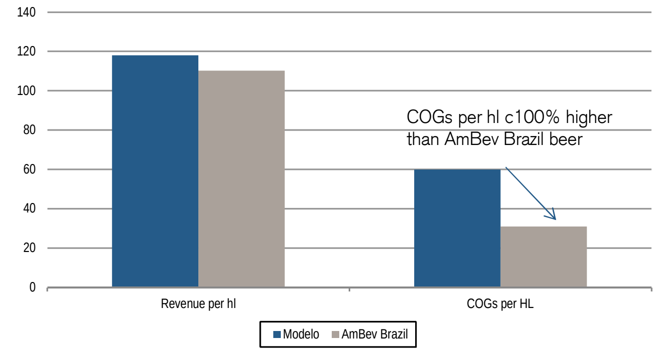
Key Charts

Figure 1: $600m synergy target implies c9% of sales, looks reasonable vs historic deals
in %, unless otherwise stated



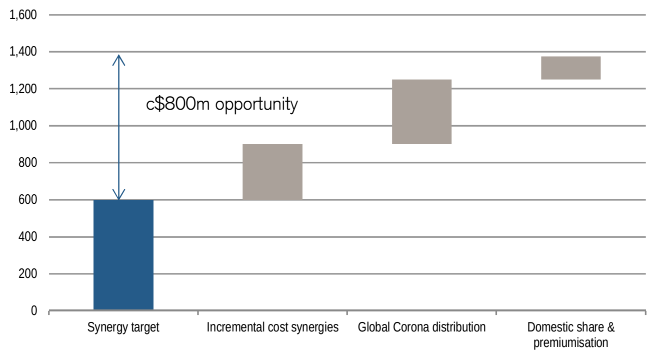
Source: Company data, Credit Suisse estimates

Figure 2: Scope for further savings - reducing the COGs per hl gap by 50% implies total $900m cost savings
in $ per hl, unless otherwise stated



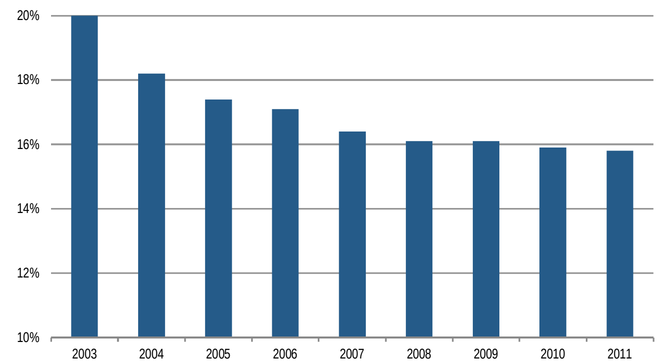
Source: Company data, Credit Suisse estimates

Figure 3: Source of c$800m potential incremental synergies - adds 5% to FY16E EPS
in $millions



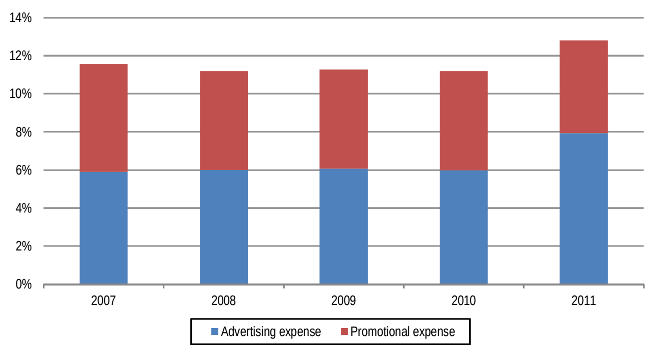
Source: Credit Suisse estimates

Figure 4: Pepsi has been losing share in Mexico – tie-up with Modelo could improve distribution, with cost saving potential
Pepsi market share in Mexico - %



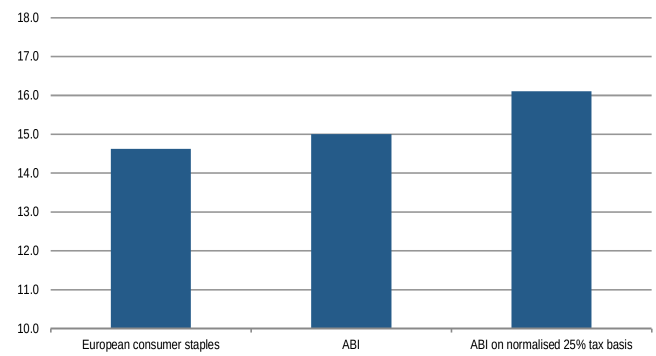
Source: Euromonitor

Figure 5: Crown stepping up US advertising spend in FY11, implies better placed to take pricing
A&P spend as % of net sales



Source: Company data

Figure 6: ABI trades on 16x FY13E P/E on normalised tax rate basis - upside priced in
in x, unless otherwise stated



Source: Credit Suisse estimates

Deal basics

ABI announced on 29 June it had agreed to acquire the rest of Grupo Modelo that it did not own, but would sell Modelo's 50% stake in the US Crown Imports joint venture to Constellation Brands (STZ, not rated).

We estimate a total transaction multiple of 16.4x EBITDA, which compares with historical brewing acquisitions of 11-13x EBITDA (the company estimates a headline multiple of 12.9x as it assumes fair value of its existing stake in Grupo Modelo)

The deal is expected to close in Q1 2013 following regulatory approvals – the company does not expect any anti-trust issues.

We go into more detail on the financial element of the transaction on page 18.

The rationale

We believe the timing on the acquisition of Grupo Modelo makes strategic sense for ABI:

ABI needed new drivers of growth

Following the completion of the Anheuser-Busch acquisition synergies in 2011, ABI had become dependent on Brazil for profit growth – Brazil represented c35% of EBITDA in FY11, but critically accounted for a disproportionate amount of EBITDA growth. The recently announced increase in excise duty (by c20% from Q4 2012) and a depreciating Brazilian Real (15% fall v US$ since Feb 2012) has somewhat dampened the outlook.

Leverage balance sheet

ABI's balance sheet has been a key investor focus over the past 12 months, as net debt/EBITDA looked set to reach sub 2x in FY12E. While the company has commented on raising the dividend payout ratio and potential share buybacks later in the year, it has maintained it would consider "M&A, as and when opportunities arise."

Dominant position in fourth largest beer profit pool

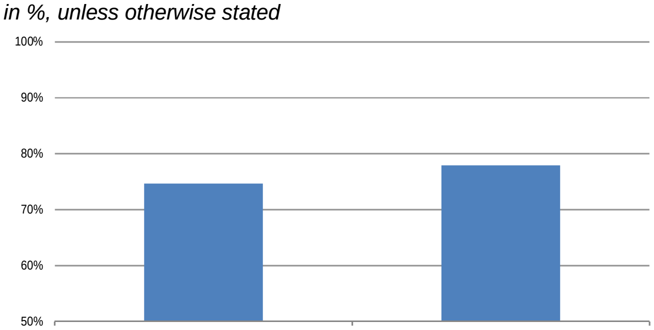
With the consolidation of Grupo Modelo, ABI now becomes the number 1 brewer in four out of the top five beer profit pools globally.

Consolidation of cash flows

With Modelo as an associate, ABI was receiving 75-80% of its net income in dividend income –the consolidation of Modelo's cash flows makes the acquisition more free cash flow accretive than EPS accretive.

Figure 7: **ABI's dividend income as % of associate net income**

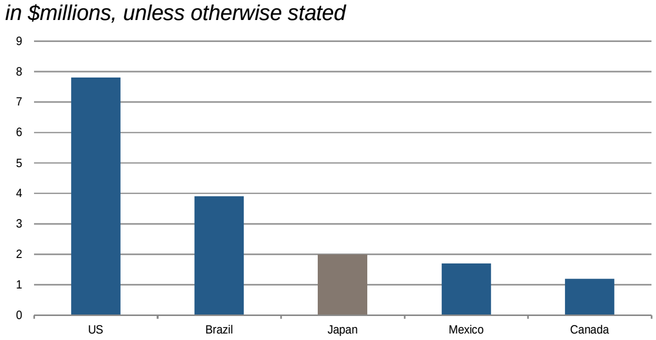
in %, unless otherwise stated



Source: Company data

Figure 8: **ABI is now the number 1 brewer in four out the top five beer profit pools**

in $millions, unless otherwise stated



Source: Company data,

Cost synergies – $300m upside

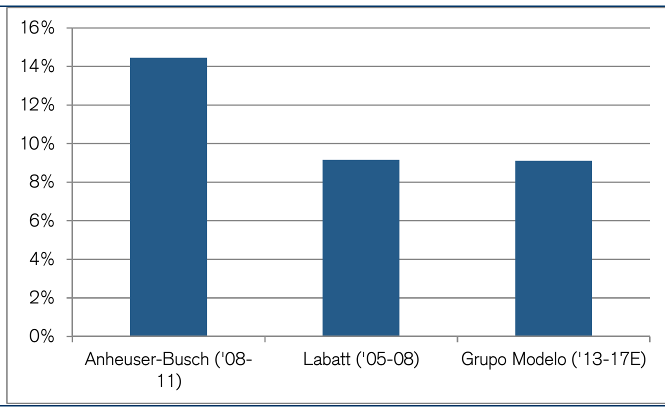
ABI is targeting at least $600m of cost related synergies over four years (of which 60% is expected to be fixed) through; i) combined purchasing; ii) share of best practices and iii) efficiency in overhead & system platform costs. We estimate this represents c9% of Grupo Modelo's continuing sales base (after adjusting for the Crown Imports disposal and including Modelo's sales to Crown).

All this is based on cost synergies put forward by the company of $600m, but is this reasonable? The group has consistently beaten its own guidance, so we consider the potential for a beat to guidance this time as well.

Comparison with other deals

Whilst synergies across the brewing industry have averaged c5% of sales, we note ABI has achieved much higher than this with Anheuser-Busch (c15%) and Labatt (c10%). Given this strong track record, we think there is scope to generate substantially more synergies than implied by guidance.

Figure 9: **Cost savings as % of net sales**
in %,



Source: Company data, Credit Suisse estimates

Comparison with AmBev

To estimate the extent of the potential cost opportunity, we compare Modelo's P&L with that of AmBev's Brazilian beer operations on a pro-forma US$ per hectolitre basis below.

Our analysis shows that Modelo generates a slightly higher net revenue per hl than AmBev in Brazil (which is unsurprising to us given exports account for c30% of sales).

However, the key difference lies in the cost of goods sold, which is almost double that of AmBev ($60 per HL v AmBev at c$30), and explains why AmBev Brazil generates a 2x higher EBITDA margin.

The synergy target of $600m implies cost savings of $11 per hl. If we assume all of these savings come in the cost of goods sold line, this improves gross margins by c900bps, but critically **Modelo's COGs per HL would still be c60% higher than AmBev Brazil** (falling from $60 to $49 per hl).

We believe there are structural differences which might explain some of the difference (exclusivity payments, lower scale), but we also believe a cost-cutting culture across the group could lead to potentially more savings.

For sensitivity, each $1 per hl represents c$60m - reducing the COGs per HL difference by 50% (to $45 per HL) indicates a c$900m opportunity (or $300m incremental upside to the stated target).

Figure 10: Pro-forma P&L of Modelo v AmBev Brazil – scope for upside to synergies?
in US$ per hl, unless otherwise stated

US$ per hl	Modelo ex Crown & ex DIFA	AmBev Brazil beer	Difference - %
Net revenue	118	110	7%
Cost of goods sold	-60	-31	94%
Gross Profit	58	79	-27%
SG&A	-28	-21	28%
EBITDA	30	58	-47%
D&A	-5	-5	3%
EBIT	25	53	-52%
Volume - mhl	56	86	-35%
Gross profit margin - %	49%	72%	-2300bps
SG&A as % sales	23%	19%	+400bps
EBITDA margin - %	26%	52%	-2700bps
Synergy target - $m	600		
Synergy target - $ per hl	11		
as % of sales	9%		

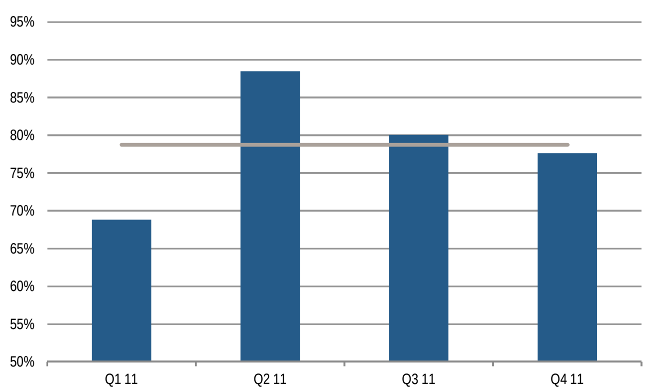
Source: Company data, Credit Suisse estimates

- **Better brewery rationalisation could be one source of upside**

Whilst we believe Modelo's capacity utilisation at just under 80% (and peak capacity utilisation of 88%) is adequate, we believe ABI might be able to better rationalise the brewery infrastructure, which could be a source of further synergy upside. We believe capacity in the top four bigger breweries is able to be upgraded sufficiently to allow the closure of some of the smaller breweries.

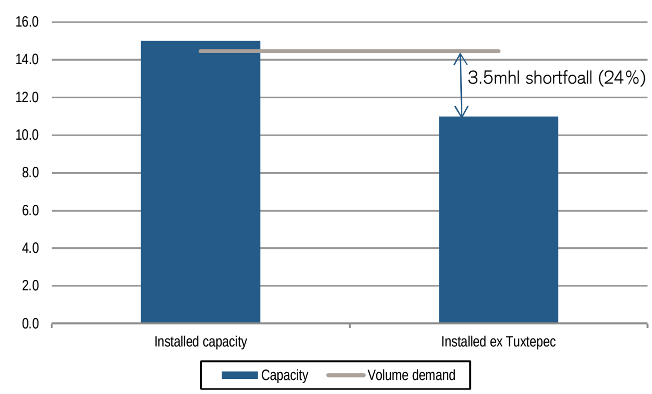
For example, during the peak season of Q2 2010, group capacity was disrupted by a labour strike at the company's Tuxtepec brewery (second largest, 16mhl installed annual capacity or 4mhl per quarter) – this would indicate a c25% reduction in group capacity. However, the company indicated it was able to operate through this strike without production disruption – this indicates that the company was able to introduce sufficient capacity elsewhere. Therefore, whilst installed capacity is currently 70mhl, we believe true capacity potential might be significantly understated, indicating scope for rationalisation

Figure 11: Modelo is running at peak capacity utilisation of c88%
in %, unless otherwise stated



Source: Company data

Figure 12: Tuxtepec strike indicates true capacity potential might be understated by c25%
in mhl



Source: Company data, Credit Suisse estimates

Figure 13: **Grupo Modelo's existing brewery infrastructure**

Grupo Modelo – installed capacity

	Brewery	State	Installed Capacity (HLmn)	Operating since
1	Zacatecas	Zacatecas	20	April 1997
2	Tuxtepec	Oaxaca	16	October 1984
3	Anáhuac	D.F.	11	March 1922
4	Piedras Negras	Coahuila	10	May 2010
5	Guadalajara	Jalisco	5	December 1964
6	Cd. Obregón	Sonora	3	July 1961
7	Torreón	Coahuila	3	April 1967
8	Mazatlán	Sinaloa	2	March 1900
	Total		70	

Grupo Modelo's breweries' location

Source: Company data

Potential revenue synergies c$500m

We believe there are four areas of potential revenue synergies, which we detail below

- Global roll-out of the Corona brand - $350m
- Market share and premiumisation in Mexico - $125m
- Combining beer with soft drinks (Pepsi) – not quantified
- Improved US pricing environment – not quantified

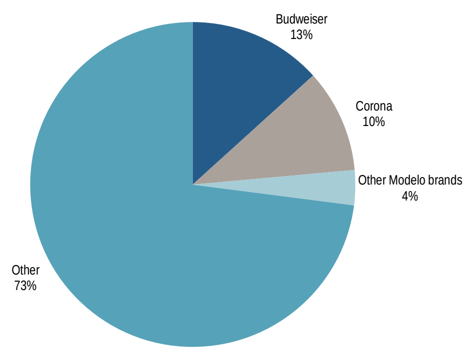
1) Taking the Corona brand global

A $350m profit opportunity over four years?

Corona will likely become a global brand for ABI, alongside Budweiser, Stella Artois and Beck's. We see upside potential if ABI is able to leverage this across its existing markets outside the US and Mexico – we note that Corona has a strong existing franchise, accounting for c10% of global export volumes.

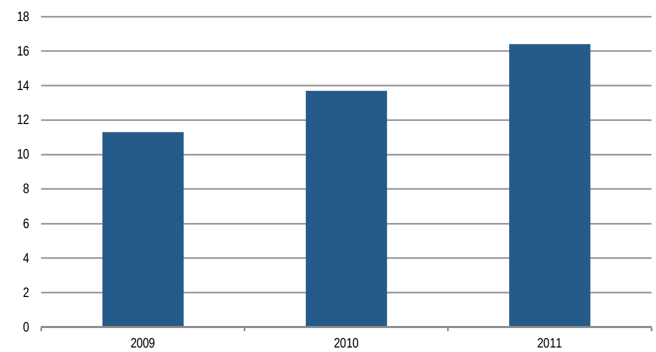
We believe the biggest opportunity is in China, where there is scope for the brand to be positioned alongside Budweiser in the premium segment (Budweiser has a c40% market share in the Chinese premium segment) – ABI has raised Budweiser export volume by c45% since 2009, with a large proportion of this growth generated in China.

Figure 14: **Corona accounts for c10% of global export volumes 2011**
in %, unless otherwise stated



Source: Company data

Figure 15: **ABI has grown Budweiser export volumes by 45% since 2009**
Budweiser export volumes in mhl



Source: Company data

Whilst there might be some opportunities for Corona in Brazil, particularly as that market is at the start of a premiumisation journey, we believe the company may struggle to persuade consumers to switch to a Mexican brand (the beer industry across Latin America has been built around local brands).

However, we estimate that global distribution of the Corona brand by ABI could be a $350m profit opportunity over four years assuming the company is able to;

- Replicate the pace of the global roll-out of Budweiser over the past two years (c2.5mhl p.a.) with Corona over the next four years.
- Generate a similar beer EBIT per hl on Corona as it does for the whole company ($35 per hl) – (lower profit per hl regions in the group mix are offset by the fact this is a premium brand).

Figure 16: Four-year Corona brand export potential based on ABI ex soft drinks metrics
in $millions, unless otherwise stated

	ABI	$ per hl	Corona
Net revenue	34,474	100	1,002
Gross profit	20,614	60	599
EBIT	11,988	35	348
Volume – mhl	344		10

Source: Credit Suisse estimates

The caveat is that the Corona brand globally is currently under licence by other companies – ABI stated it would respect existing contracts, and we do not have visibility on when these potentially expire, or break clauses – therefore the timing of the Corona opportunity is difficult to assess.

2) Introduce ABI's brands into Mexico

- **i) Market share opportunity – US brands are under-represented**

Modelo has been importing Budweiser and Bud Light into Mexico for around 20 years, however, we do not believe the potential has been fully realised – over this period, these brands reached **just over 1% market share** – we believe Modelo would have been less incentivised to push these brands in Mexico given it did not own them, and the relationship with Anheuser-Busch in the past had been difficult (e.g. recent arbitration case in 2010)

Better execution of these brands, particularly in the north where i) US brands have better resonance with consumers given the closer geographic proximity, ii) per capita consumption is higher, and iii) the business is more profitable given better pricing and bigger drop sizes, could present a profitable market share opportunity for ABI over Heineken, the market leader in the region.

Figure 17: Modelo's relative strongholds are in the West and Centre (shaded areas are Heineken strongholds)
Market share by region - %

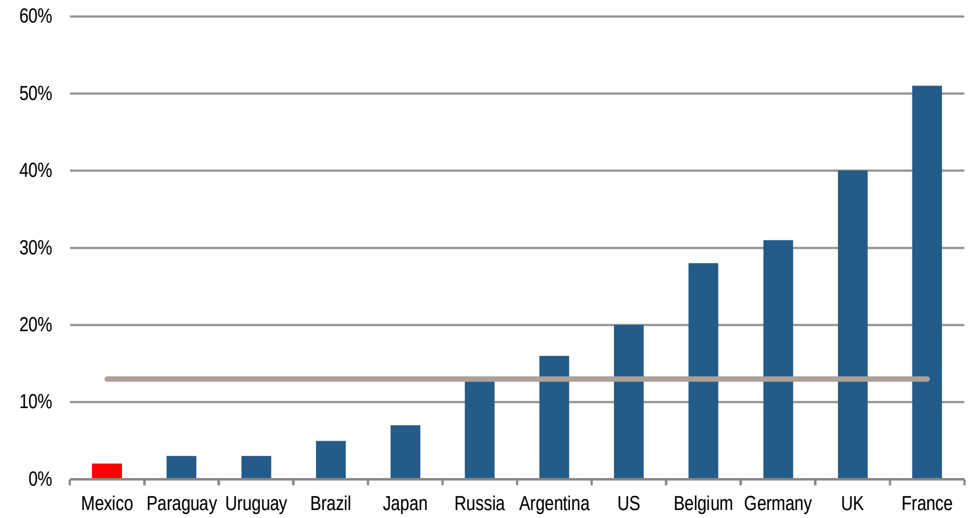
Source: Company data, Credit Suisse research

- **ii) Premiumisation opportunity**

We note that premium beer volumes in Mexico represent just 2% of industry volumes, which is low relative to international standards, and represents a medium to long-term opportunity: The scope for premiumisation in the market is one the reasons behind Heineken's acquisition of FEMSA in 2010.

We believe two players in a duopoly market intent on premiumisation present a solid outlook for industry value growth.

Figure 18: Premium beer volumes are low by international standards (global avg 13%)
in %,



Source: Company data

We estimate market share gains and premiumisation could be a $215m revenue/$125m profit opportunity for Modelo over the next four years assuming;

- Underlying market volume growth of 3% p.a (in line with industry forecasts)
- Modelo gains 50bps of market share p.a.
- Mexico is able to generate a similar segmentation of premium volumes as Brazil over the next four years (from 2% to 6%)
- Premium beer sells at a c40% price premium versus mainstream beer.

Figure 19: Potential domestic opportunities for Grupo Modelo - $125m profit opportunity
in $millions, unless otherwise stated

	2011	2012E	2013E	2014E	2015E	2016E	Comment
Domestic market share opp							
Volume - mhl							
Modelo	39.1	40.3	41.8	43.4	45.1	46.8	
Others	26.1	26.8	27.3	27.8	28.2	28.7	
Market	**65.2**	**67.1**	**69.1**	**71.2**	**73.3**	**75.5**	
Market share - %							
Modelo	60.0%	60.0%	60.5%	61.0%	61.5%	62.0%	Assume ABI gains 50bps of market share pa from 2013-16E
Others	40.0%	40.0%	39.5%	39.0%	38.5%	38.0%	
Market	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	
Volume change - %							
Modelo		3.0%	3.9%	3.9%	3.8%	3.8%	Implies Modelo grows volumes faster than market by 80-90bps
Others		3.0%	1.7%	1.7%	1.7%	1.7%	
Market		**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	
Forecast Modelo Domestic revenue	3,900	3,900	4,200	4,536	4,876	5,242	
Implied Modelo vol upside - %			0.9%	0.9%	0.8%	0.8%	
Revenue upside - $m			33	36	38	41	
Accumulated revenue upside - $m			**33**	**69**	**108**	**148**	
EBIT conversion - %			40%	40%	40%	40%	
EBIT upside			13	14	15	16	
Accumulated EBIT upside - $m			**13**	**28**	**43**	**59**	
Modelo premiumisation opp							
Modelo volume - mhl							
Import	0.9	0.9	1.3	1.8	2.3	2.8	
Domestic	38.2	39.4	40.5	41.7	42.8	44.0	
Total	**39.1**	**40.3**	**41.8**	**43.4**	**45.1**	**46.8**	
Premium as %	2%	2%	3%	4%	5%	6%	Assume Modelo grows premium vols to 6% of portfolio
Volume change - %							
Import		3.0%	48.6%	35.1%	27.9%	23.3%	
Domestic		3.0%	2.9%	2.8%	2.8%	2.8%	
Total		**3.0%**	**3.9%**	**3.9%**	**3.8%**	**3.8%**	See above
Price per hl (index)							
Import		140	140	140	140	140	
Domestic		100	100	100	100	100	
Total							
Forecast Modelo Domestic revenue	3,900	3,900	4,200	4,536	4,876	5,242	
Implied mix benefit - %			0.4%	0.4%	0.4%	0.4%	
Revenue/EBIT upside - $m			15	16	17	18	
Accumulated Revenue/EBIT upside - $m			**15**	**30**	**47**	**65**	

Source: Company data, Credit Suisse estimates

3) Soft drinks opportunity with Pepsi?

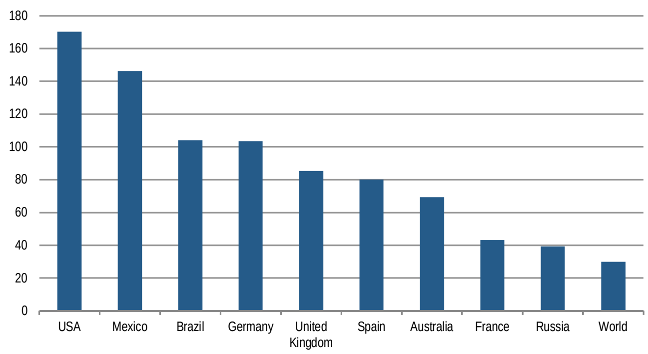
We believe combining beer with soft drinks in Mexico is one area of potential upside over the medium to long term. This is largely because:

- **Beer and soft drinks have high overlap:** Mexico is largely an off-trade market (c85% of volumes) with many fragmented, mom & pop outlets (over 50% of the off-trade) – as such, we believe there is a high proportion of overlapping points of sale between beer and soft drinks. Consolidation of distribution could present savings to both manufacturers and retailers.

- **Modelo has high market share and direct distribution:** Grupo Modelo has a c60% beer market share in Mexico and distributes over 80% of its beer volumes through its own direct distribution system.

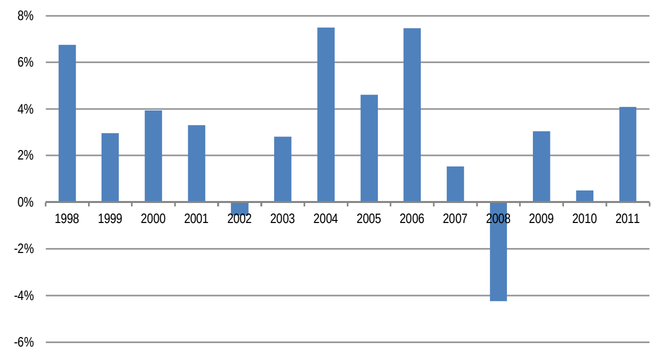
- **Beer exclusivities could provide access to point of sales:** A significant proportion of the Mexican beer business operates under exclusivities (a practice carried out by both Modelo and FEMSA, which creates a barrier to entry). As such, given the relative bargaining power this presents to the beer producer, use of these exclusivities could be extended to soft drinks.
- **AmBev has a strong relationship with Pepsi:** AmBev (62% owned by ABI) is one of the largest Pepsi bottlers outside the US. AmBev became the exclusive Pepsi CSD bottler and distributor in Brazil in 2000 (following the merger between Brahma and Antarctica). Its subsidiaries in Argentina, Bolivia, Uruguay, Peru and the Dominican Republic also have Pepsi franchise agreements in place. There may be scope to establish a joint relationship in Mexico.
- **Pepsi has struggled in Mexico:** Pepsi has lost c400bps of market share Mexico in recent years. Whilst we believe some of the issues relate its weaker perceived brand equity, we also note it is unable to compete with Coca-Cola's far superior distribution network – tying up with a brewer could potentially improve the distribution issue.

Figure 20: **Mexican CSD per capita consumption is the second highest globally**
litres per capita consumption of selected countries



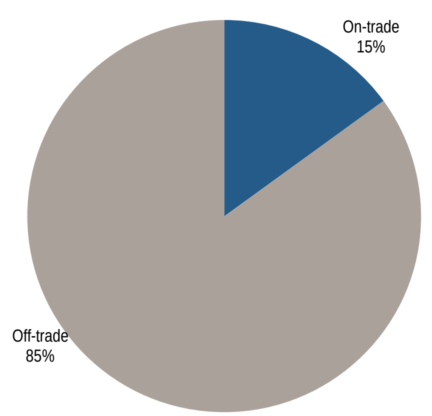
Source: Euromonitor

Figure 21: **…industry volume growth has returned**
in %, unless otherwise stated



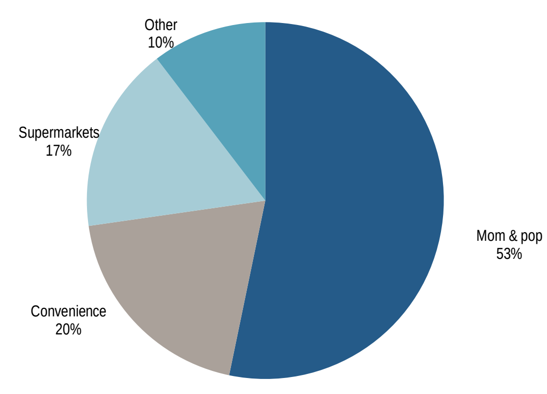
Source: Euromonitor

Figure 22: **Mexico is an off-trade beer market…**
in %, unless otherwise stated



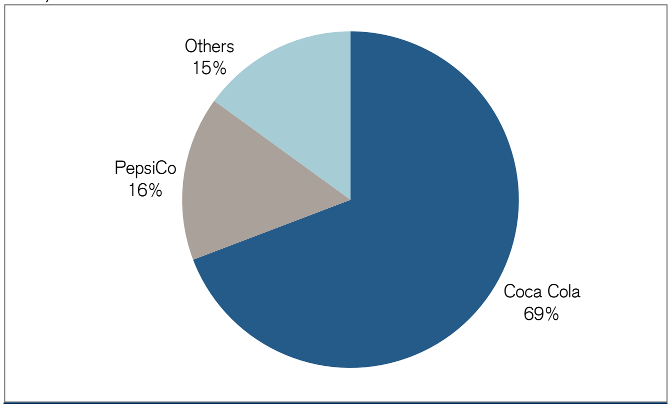
Source: Company data (2011)

Figure 23: **Mom & pop retailers dominate the off-trade, indicating high distribution overlap between beer & CSD**
in %, unless otherwise stated



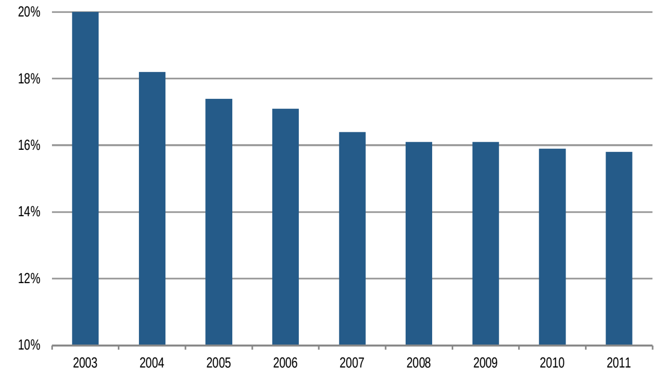
Source: Company data (2011), Credit Suisse research

Figure 24: Pepsi has only has a c16% CSD market share…
in %, unless otherwise stated



Source: Euromonitor (2011)

Figure 25: …which has fallen by c400bps since 2003
in %, unless otherwise stated



Source: Euromonitor

Since 2011, Pepsi operates in Mexico in a joint venture with GEUSA (a subsidiary of Grupo Embotelladoras Unidas in Mexico) and Empresas Polar (the largest food and beverage company in Venezuela).

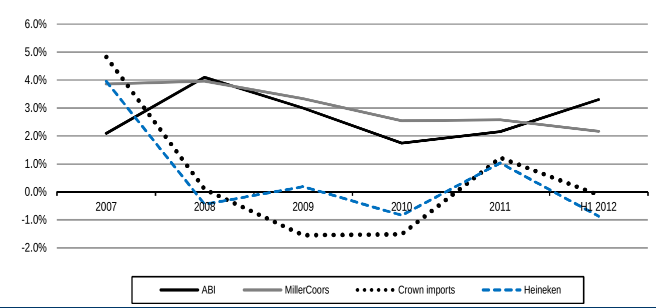
We acknowledge bottling contracts are typically long term, and therefore this may only be a long-term opportunity for ABI, if at all. Nevertheless, there may be scope for ABI to buy into this joint venture if the synergy potential can be justified, but this is unlikely in the short term given its focus on other cost and revenue synergies as highlighted above.

4) Improving US pricing outlook?

Another area of potential upside is the pricing environment in the US. We note that Crown imports, the leader in the US imported beer segment with c40% market share, has not taken pricing in the past four years. As a result, the number two player Heineken has also chosen to abstain from price rises. With ABI and MillerCoors (the dominant mainstream players) focused on extracting as much value as possible out of the US over the same period, the result has been a sharp drop in the import price premium over mainstream beer.

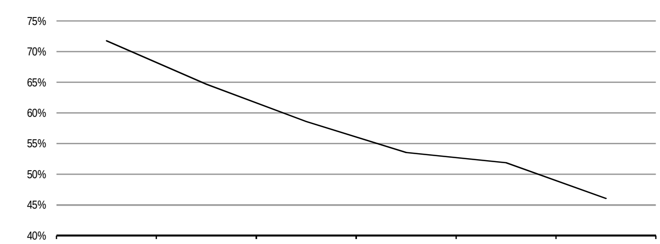
With both Crown Imports and Heineken recently indicating they were still not willing to take price increases, we believe a prolonged fall in this import price premium could continue to damage long-term volumes and market share for US mainstream beer.

Figure 26: Mainstream beer has been pricing ahead of the import segment
in %, unless otherwise stated



Source: Company data, Credit Suisse estimates

Figure 27: The import price premium has fallen by 2500bps
in %, unless otherwise stated



Source: Company data, Credit Suisse estimates

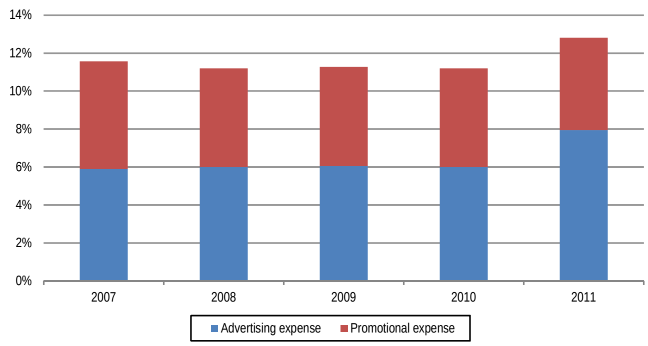
We believe under new owner, Constellation Brands, we could see an improved pricing outlook for the Crown business:

i) **Period of brand investment helps to justify higher pricing:** A contributing factor behind Modelo's reluctance to take pricing in the US was its belief that the US brand portfolio required a step-up in marketing investment. The company raised advertising expense by c40% in FY11 in absolute terms (or c200bps as % of net sales, while promotional expenses were flat). We believe that following this period of brand investment, the Crown Imports portfolio is now better placed to justify price increases.

ii) **Modelo had benefited from US$ appreciation, STZ not:** Furthermore, Modelo has seen positive translation impact from the US4 v peso move over the past few years (c4% CAGR), which would have also directly translated to profits – this also might explain some of the company's reluctance to take price in recent years

Figure 28: Crown stepped up advertising expense by 200bps as % of net sales in FY11

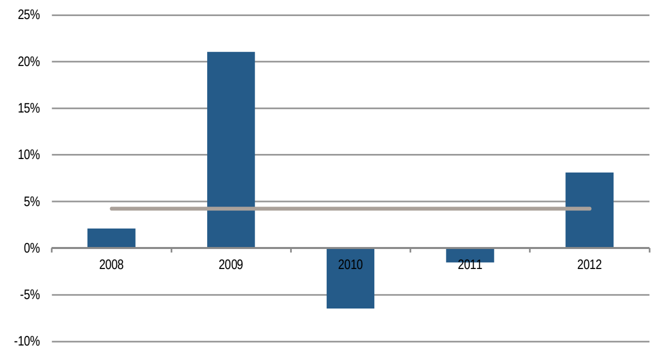
A&P expense as % of net sales



Source: Company data

Figure 29: Modelo had benefited from 4% CAGR US$ appreciation v Mexican peso

in %, unless otherwise stated



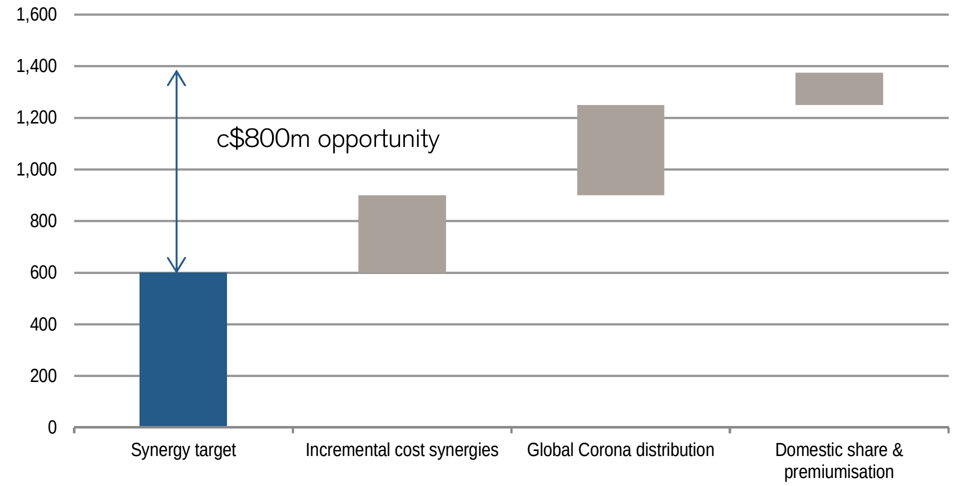
Source: Company data

However, we are mindful that the US anti-trust authorities are likely to look into any potential conflicts of interest – we expect further visibility on this issue over the coming months.

Total $800m incremental opportunity

Our analysis points to $800m potential incremental synergies from the Grupo Modelo acquisition, before any potential upside from a tie-up with Pepsi and improved US pricing. We estimate this would add an incremental c5% to FY16 forecasts. However, we choose not to factor these into our estimates at this stage, as we are unsure whether or not these would be re-invested into the business.

Figure 30: Source of c$800m potential incremental synergies – adds c5% to FY16E EPS
in $millions, unless otherwise stated



Source: Credit Suisse estimates

Re-modelling

Grupo Modelo pro-forma P&L and margin explained

There are a few moving parts in explaining Grupo Modelo's underlying pro-forma EBITDA margin.

While Modelo only owned 50% of the Crown Imports joint venture, the company consolidated 100% of the business in its P&L, with a minority interest coming out at the bottom of the P&L.

It is important to highlight that Modelo generated two sources of income from the Crown Imports joint venture;

- **Modelo revenue and profit from selling to Crown** – Modelo generates revenue from selling its brands to the Crown Imports joint venture, which is effectively Crown's cost of goods sold (we assume Crown only buys from Modelo). Whilst sales was netted off against Crown's revenue, the profit was recognised in the P&L.
- **Crown revenue and profit from selling to US wholesalers –** Modelo fully consolidated Crown, and thus recognised Crown's revenue and EBIT generated from US wholesalers.

Therefore, on the deconsolidation of Crown Imports, there are two impacts:

- Modelo loses $2.5bn sales and $437m EBITDA from Crown Imports selling to US wholesalers;
- However, Modelo now recognises its sales to Crown (which was netted off against Crown's sales as this is effectively Crown's COGs), whilst it was already recognising the profit stream from selling to Crown.

On a headline basis, therefore, it may seem that Modelo makes a 30.1% EBITDA margin, making these adjustments **takes it down to 26.8%**, which we estimate to be the underlying margin.

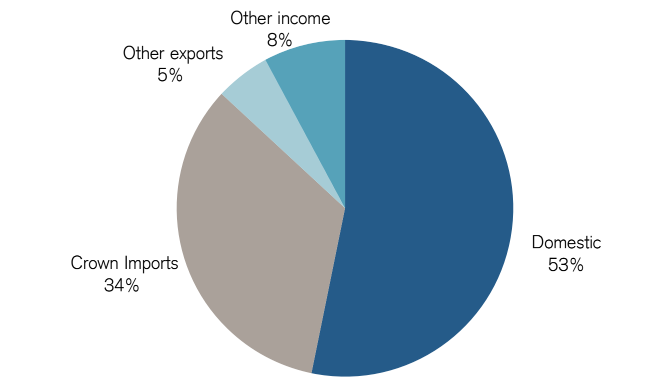
However, the acquisition of DIFA (a glass bottle manufacturer) adds c440bps to this margin - Modelo is DIFA's only customer and, therefore, on consolidation zero revenues are recognised, whilst Modelo gains the c$300m EBITDA generated by the business.

Figure 31: Grupo Modelo FY11 pro-forma P&L following Crown Imports disposal
in US$millions, unless otherwise stated

Grupo Modelo		Grupo Modelo pro-forma		Comments
Revenue		**Revenue**		
Domestic	3,900	Domestic	3,900	Unchanged
Export	2,857	Export	2,133	Take out Crown revenue, include Modelo sales to Crown
- Crown Imports	*2,470*	*- Modelo sales to Crown*	*1,747*	*Modelo recognises its own sales to Crown (assume 100% of Crown COGs)*
- Other exports	*387*	*- Other exports*	*387*	*Unchanged*
Other income	574	Other income	574	Unchanged
Total	**7,331**	**Total**	**6,608**	
EBITDA	**2,204**	**EBITDA**	**2,063**	Take out Crown EBITDA, include DIFA profit margin
- Domestic/Other exports & other income	*1,768*	*- Domestic/Other exports & other income*	*1,768*	*Unchanged*
- Crown Imports	*437*	*- DIFA*	*296*	*Modelo gains DIFA profit margin through vertical consolidation of supplier to which it was only customer*
EBITDA margin - %	**30.1%**	**EBITDA margin ex DIFA - %**	**26.8%**	Underlying EBITDA margin ex Crown Imports & DIFA
		EBITDA margin inc DIFA - %	**31.2%**	Consolidation of DIFA adds 440bps
Crown Imports				
Revenue	2,470	Recognised in Modelo P&L		
Cost of goods sold	-1,747	Crown's COGs = Modelo sales to Crown		
Gross profit	724			
Gross profit margin - %	29.3%			
SG&A	-289			
as % of sales	12%			
EBITDA	437			
EBITDA margin - %	17.7%			

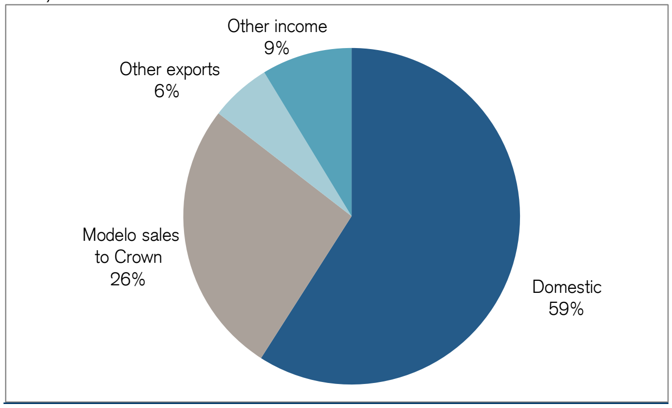
Source: Company data, Credit Suisse research

Figure 32: FY11 reported sales split including Crown
in %, unless otherwise stated



Source: Company data

Figure 33: FY11 reported sales split post Crown disposal
in %, unless otherwise stated



Source: Company data

Deal economics explained

There are three underlying acquisitions taking place:

- ABI buys Grupo Modelo (ex Crown Imports and inc DIFA) – 18x EBITDA
- Constellation buys Crown Imports – 8.5x EBITDA
- Modelo buys DIFA – 6x EBITDA

We estimate that ABI is paying 18x for the underlying Grupo Modelo business following the disposal of its 50% stake in Crown Imports to Constellation Brands. This is diluted by the c6x EBITDA multiple paid for DIFA, a glass bottle manufacturer, giving an overall deal multiple of 16.4x.

This is higher than historical deal multiples across the beverages sector of 11-13x EBITDA. We estimate a total cash outlay for ABI of $14.3bn.

Figure 34: ABI/Grupo Modelo deal economics – a high underlying multiple (2012E)
in $millions, unless otherwise stated

	2012	Comment
Share price - MXN	126.8	30% premium to close on 22nd June 2012
Total number of Modelo shares (ex DIFA)	3,234	
Market Cap - MXN	410,133	
USD/Mexican Peso	13.86	
Market Cap - $m	29,591	Modelo is 35% owned by ABI
Value of Diblo - $m	38,430	Diblo is the operating brewery, 77% owned by Modelo, 23% owned directly by ABI - total 50.3% owned by ABI
Less FY12E net cash	-2,608	
Enterprise Value inc Crown & ex DIFA	**35,822**	
FY12E EBITDA	2,212	
EBITDA multiple - x	**16.2**	**EBITDA multiple for 49.7% of Grupo Modelo inc Crown Imports**
Value of Crown Imports	**3,700**	Constellation brands to acquire Modelo's 50% stake in Crown Imports at 8x EBITDA
FY11 Crown Imports EBITDA	437	
EBITDA multiple - x	**8.5**	
Enterprise Value post Crown disposal & ex DIFA	32,122	
FY12E EBITDA ex Crown Imports	1,774	
EBITDA multiple - x	**18.1**	
Enterprise value of DIFA	**1,762**	53.5% of DIFA for 103m Modelo shares at $9.15
DIFA FY11E EBITDA	288	FY12E reference EBITDA less FY12E Grupo Modelo EBITDA
EBITDA multiple - x	**6.1**	Implied DIFA EBITDA multiple
Enterprise value	**33,884**	
FY12E pro-forma EBITDA	2,063	
EBITDA multiple - x	**16.4**	
ABI cash outlay		
Value of 65% Modelo + 53.5% DIFA	20,042	
Fees & transaction costs	200	
Payment for STZ 50% purchase of Crown	-1,850	
Less FY12E net cash	-2,608	
Modelo shareholder equity re-investment	-1,500	
Total use of funds	**14,285**	
Value of 65% Modelo + 53.5% DIFA	20,042	
Fair value of existing Modelo/Diblo stake	13,000	
Less crown Imports	-1,850	
Less net cash	-2,608	
Total	**28,585**	

Source: Credit Suisse estimates

Deal is c12% eps accretive

Our Grupo Modelo forecasts assume;

- Deal closes on 1 January 2013
- Organic revenue growth of c7% pa (split 4% volume/ 3% price/mix)
- Organic margin expansion ex synergies of 30-50bps pa
- $600m cost synergies delivered by FY16E
- 2% cost of debt on $14bn short-term financing (which we assume is all paid down by year 3)
- Effective tax rate in line with ABI

Figure 35: Deal would be 12% eps accretive on $600m synergies
in $millions, unless otherwise stated

	ABI pre Modelo				Modelo pro-forma (ex Crown/inc DIFA)				ABI + Grupo Modelo				change - %			
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Revenue	41,766	44,318	46,954	49,787	7,055	7,596	8,154	8,730	48,821	51,914	55,108	58,518	17%	17%	17%	18%
EBIT	13,801	14,765	15,779	16,868	1,906	2,097	2,311	2,535	15,707	16,862	18,090	19,404	14%	14%	15%	15%
Share of profit from associates & JVs	759	797	837	879	-759	-797	-837	-879	0	0	0	0				
Synergies					100	150	250	100	100	150	250	100				
EBIT post synergies	14,560	15,562	16,616	17,747	1,246	1,550	1,974	2,256	15,807	17,112	18,590	20,004	9%	10%	12%	13%
Net financial expense	-1,774	-1,550	-1,336	-1,113	-285	-262	-238	-268	-2,059	-1,812	-1,575	-1,382				
Clean PBT	12,787	14,012	15,280	16,634	962	1,288	1,735	1,988	13,748	15,300	17,015	18,622	8%	9%	11%	12%
Underlying tax expense	-2,526	-3,039	-3,611	-3,939												
Tax on exceptionals	0	0	0	0												
Total tax expense	-2,591	-3,114	-3,695	-4,026	-396	-480	-643	-717	-2,887	-3,519	-4,254	-4,655				
Normalised effective tax rate - %	21.0%	23.0%	25.0%	25.0%	23.0%	23.0%	25.0%	25.0%	21.0%	23.0%	25.0%	25.0%				
Clean profit after tax	10,261	10,973	11,669	12,695	566	808	1,092	1,271	10,861	11,781	12,761	13,966	6%	7%	9%	10%
Minority interest	-2,542	-2,720	-2,911	-3,086	0	0	0	0	-2,542	-2,720	-2,911	-3,086				
Clean net income	7,718	8,252	8,758	9,610	566	808	1,092	1,271	8,319	9,061	9,850	10,881	8%	10%	12%	13%
Average number of shares - basic	1,598	1,598	1,598	1,598					1,602	1,606	1,609	1,613				
Average number of shares - diluted	1,617	1,617	1,617	1,617					1,621	1,625	1,628	1,632				
Clean EPS - fully diluted	**4.77**	**5.10**	**5.42**	**5.94**					**5.13**	**5.58**	**6.05**	**6.67**	**8%**	**9%**	**12%**	**12%**

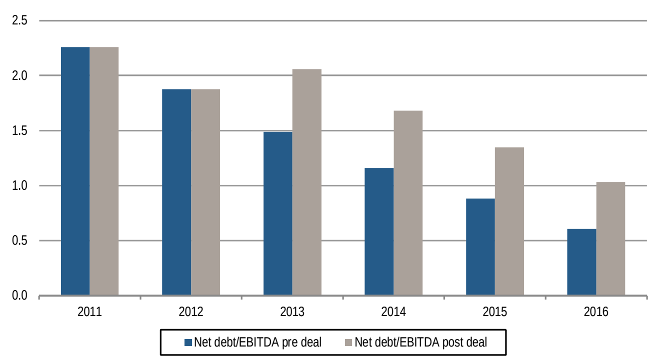
Source: Company data, Credit Suisse estimates

Whilst we have identified potential $800m incremental cost and revenue synergies, we choose not to factor these into our estimates at this stage, as we are unsure whether or not these would be re-invested into the business.

Balance sheet impact minimal, still anticipate dividend payout rise to 60% by FY14

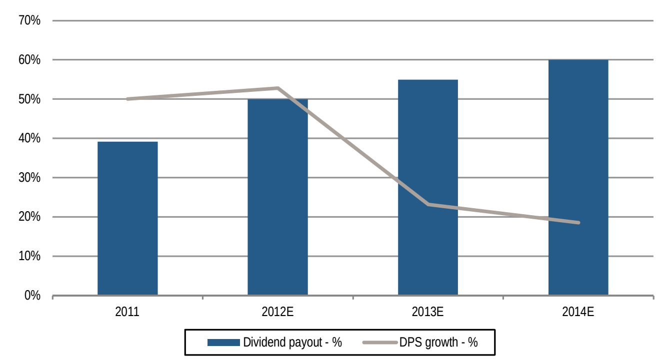
We estimate the deal would add 0.6x to FY13E net debt/EBITDA, which rises to 2.1x. Therefore, we expect ABI to de-lever back below to 2x during FY14 as per management guidance. In the interim, we expect management to raise the dividend payout ratio 60% by FY14, with share buybacks also possible from FY14.

Figure 36: Leverage is stretched by c0.6x initially
in x, unless otherwise stated



Source: Company data, Credit Suisse estimates

Figure 37: Dividend payout growth intact
in x, unless otherwise stated



Source: Company data, Credit Suisse estimates

Returns analysis

ABI management has indicated it expects the acquisition ROIC to exceed WACC by year 3. At first glance, given the headline multiple paid, this might seem counter-intuitive.

However, in giving this guidance, ABI is factoring 100% of the guided $600m synergies onto the 49.7% of Modelo (and DIFA) EBIT stream it has acquired.

Figure 38: Breakdown of how ABI reaches WACC by year 3

in $millions, unless otherwise stated

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Value of 49.7% of Modelo/Diblo	19,200							
Value of 53.5% DIFA	942							
Fees & transaction costs	200							
Value of 50% Crown	-1,850							
Less FY12E net cash	-2,608							
Modelo shareholder equity re-investment	-1,500							
Invested capital	**14,385**	**14,385**	**14,385**	**14,385**	**14,385**	**14,385**	**14,385**	**14,385**
EBIT - 49.7% of Modelo (ex synergies & ex DIFA)	814	900	995	1,096	1,207	1,325	1,451	1,586
DIFA	267	287	309	330	353	378	403	430
Synergies	100	250	500	600	600	600	600	600
EBIT (49.7% of Modelo + DIFA + synergies)	**1,181**	**1,437**	**1,804**	**2,026**	**2,160**	**2,303**	**2,454**	**2,616**
Tax rate - %	23%	23%	23%	23%	23%	23%	23%	23%
NOPAT	910	1,106	1,389	1,560	1,663	1,773	1,890	2,015
ROIC	**6.3%**	**7.7%**	**9.7%**	**10.8%**	**11.6%**	**12.3%**	**13.1%**	**14.0%**
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
ROIC-WACC	-2.9%	-1.6%	0.4%	1.6%	2.3%	3.1%	3.9%	4.8%

Source: Credit Suisse estimates

If we factor in these synergies to 100% of the Modelo EBIT stream (inc DIFA) and the pro-forma invested capital, the acquisition would only meet WACC by year 7; i.e., the company would have to find an incremental $1.1bn of synergies to meet WACC by year 3 (our analysis indicates $800m opportunity by year 4).

Figure 39: Returns analysis on pro-forma EBIT and invested capital

in $millions, unless otherwise stated

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Value of 100% Diblo	38,430							
Value of 100% DIFA	1,762							
Fees & transaction costs	200							
Value of 100% Crown	-3,700							
Less FY12E net cash	-2,608							
Modelo shareholder equity re-investment	-1,500							
Invested capital	**32,584**	**32,584**	**32,584**	**32,584**	**32,584**	**32,584**	**32,584**	**32,584**
EBIT	2,006	2,347	2,811	3,135	3,381	3,644	3,923	4,222
Tax rate - %	23%	23%	23%	23%	23%	23%	23%	23%
NOPAT	1,544	1,807	2,164	2,414	2,604	2,806	3,020	3,251
ROIC	4.7%	5.5%	6.6%	7.4%	8.0%	8.6%	9.3%	10.0%
WACC	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%	9.3%
ROIC-WACC	-4.5%	-3.7%	-2.6%	-1.8%	-1.3%	-0.6%	0.0%	0.7%
Implied incremental synergies to meet WACC by year 3			1,104					

Source: Credit Suisse estimates

Estimate changes

Prior to consolidating Grupo Modelo into our forecasts, we reduce our underlying EPS estimates by 2-3% taking into account a weaker volume outlook in Brazil following an increase in excise duty from Q4 2012 as well as a weaker Brazilian Real/US dollar exchange rate.

Figure 40: ABI estimate changes (underlying & including Modelo pro-forma estimates)
in $millions, unless otherwise stated

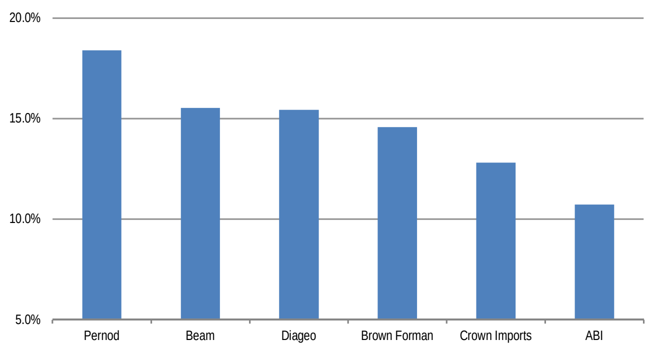
	2012E new	2013E new	2014E new	2012E prev	2013E prev	2014E prev	2012E chge - %	2013E chge - %	2014E chge - %
Pre-Modelo - underlying changes									
Sales	39,801	41,766	44,318	40,179	42,566	45,151	-1%	-2%	-2%
Clean EBITDA	15,765	16,695	17,837	15,935	17,054	18,205	-1%	-2%	-2%
Clean EBIT	13,003	13,801	14,765	13,145	14,104	15,074	-1%	-2%	-2%
Clean PBT	11,824	12,787	14,012	11,968	13,099	14,338	-1%	-2%	-2%
EPS - underlying diluted	4.58	4.77	5.10	4.65	4.93	5.26	-2%	-3%	-3%
DPS - €cents	1.84	2.11	2.46	1.77	2.06	2.40	4%	2%	3%
Post Modelo - pro-forma estimates									
Sales	39,801	48,821	51,914	39,801	41,766	44,318	0%	17%	17%
Clean EBITDA	15,765	19,054	20,565	15,765	16,695	17,837	0%	14%	15%
Clean EBIT	13,003	15,807	17,112	13,003	13,801	14,765	0%	15%	16%
Clean PBT	11,824	13,748	15,300	11,824	12,787	14,012	0%	8%	9%
EPS - underlying diluted	4.58	5.13	5.58	4.58	4.77	5.10	0%	8%	9%
DPS - €cents	1.87	2.30	2.72	1.84	2.11	2.46	1%	9%	11%

Source: Credit Suisse estimates

Remaining neutral – three reasons

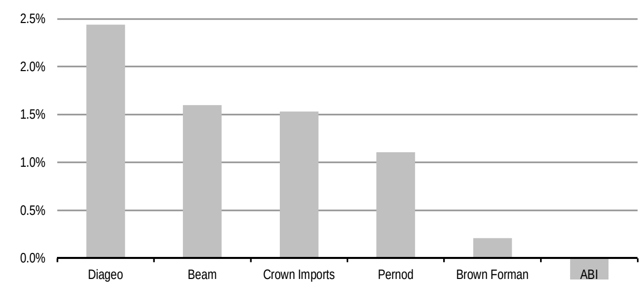
- **Still cautious on US organic growth outlook:** While we believe that an improved US import pricing outlook through acquiring Grupo Modelo could help protect US mainstream beer volumes, we still believe that for sustainable long term organic volume and profit growth, ABI needs to spend more on marketing, particularly in an environment when i) Spirits companies invest more, but are also sequentially increasing their investments, ii) the proliferation of craft breweries and brands continues to increase competition.

Figure 41: ABI spends less on A&P than alcohol peers (2011)
US A&P spend as % of sales



Source: Company data

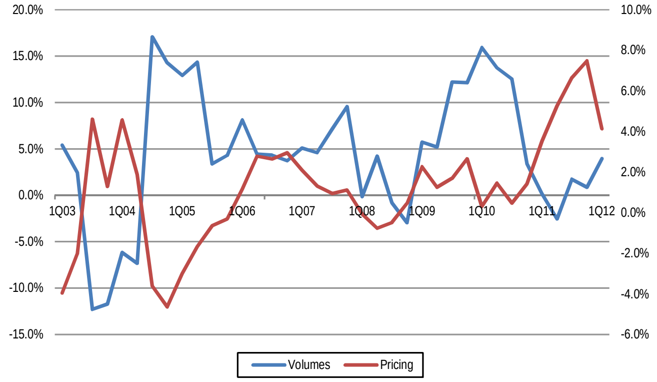
Figure 42: ABI's A&P has not risen as % of sales
Change in A&P as % of sales, 2009-11



Source: Company data

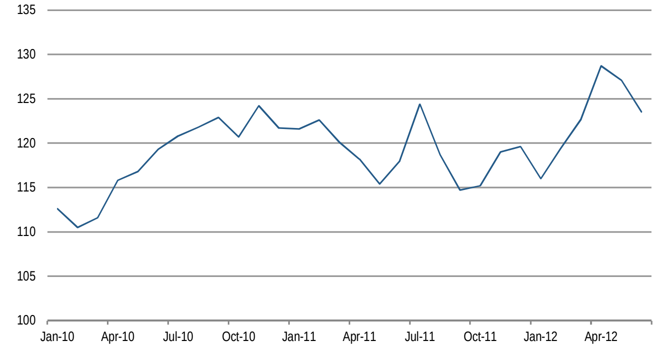
- **Brazil outlook is softening:** We believe the market had high expectations of Brazil going into FY12 given i) a c8% increase in real minimal wage growth ii) economic investment ahead of the World Cup in FY14 and Olympics in FY16. However, we note the recently announced increase in beer excise duty (this implies c4% real price increases); weakening consumer confidence over the past couple of months and a depreciating Brazilian real has somewhat dampened expectations.

Figure 43: Inverse correlation between pricing and volumes
in %, unless otherwise stated



Source: Company data, IBGE, Credit Suisse estimates

Figure 44: Brazilian consumer confidence has waned over the last couple of months
Consumer confidence index



Source: Thomson Reuters

- **Valuation on normalised tax basis is already pricing in much upside:** While we estimate c12% FY16E eps accretion on acquiring Grupo Modelo and delivering the targeted $600m synergies, ABI has already outperformed the wider consumer staples sector by 14% since 22 June (prior to the bid rumours commencing, Wall Street Journal, 24 June 2012).
- The stock now trades on a headline FY13E P/E of 15.0x (a 6% premium to the sector), however we highlight that the company currently enjoys a low tax rate of 19% - we expect this to ramp back up to normalised levels of 25% over the next few years, in line with company guidance. As such, on a normalised tax basis, the stock is currently trading on FY13E P/E of 16.1x (a c10% premium to the wider consumer staples sector). Given just 5% incremental upside to synergies, and the fact the stock has historically traded in line with the wider staples sector, we believe the stock is fairly valued.
- We prefer SABMiller given its stronger organic growth profile and more attractive valuation (calendarised FY13E P/E of 15.3x, a c5% premium to the wider consumer staples sector).

Figure 45: ABI trades at a c10% FY13E premium on normalised tax rate
in x, unless otherwise stated

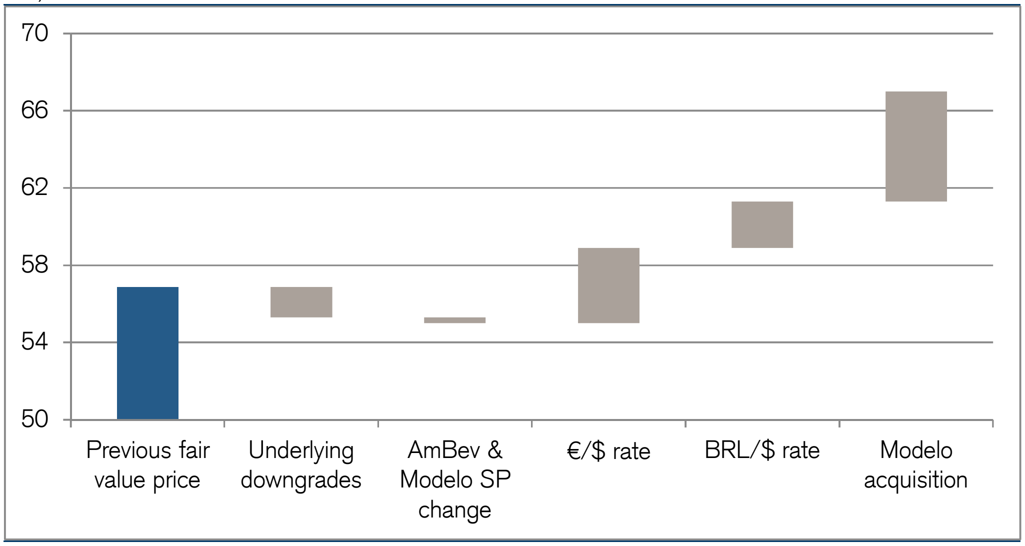
	2012E	2013E	2014E
European consumer staples	16.0	14.6	13.3
ABI	16.8	15.0	13.8
Premium - %	5%	3%	4%
ABI on normalised25% tax basis	18.6	16.1	14.3
Premium - %	16%	10%	7%

Source: Credit Suisse estimates

Valuation – raising TP to €67

We adjust our target price to reflect the changes in our underlying estimates, the Grupo Modelo acquisition, and changes in exchange rates (€/$ and BRL/$). We arrive at a fair value of €67, which implies c7% potential upside.

Figure 46: ABI target price bridge
in €, unless otherwise stated



Source: Company data, Credit Suisse estimates
Modelo target price as of 22 June 2012

Figure 47: ABI fair value of €67
In $millions, unless otherwise stated

Assumptions	
Cost of equity	9.5%
Perpetuity growth rate	2.5%
Interest rate	4.0%
Tax rate	26.0%
Cost of debt post tax	3.0%
APV	
Free cash flow NPV	114,665
Terminal value	86,636
Enterprise value	201,302
Net debt (2011A)	-34,688
Pension liability	-2,746
Minority interest	-40,979
Value of tax shield	10,926
Equity value - $m	**133,815**
Current $ per €	1.23
Equity value - €m	**108,934**
Number of shares	1,617
Equity value per share - €	**67**
Current share price	63
Upside/(downside) - %	7%

Source: Company data, price is as of close 6 July 2012

Appendix

Company overview

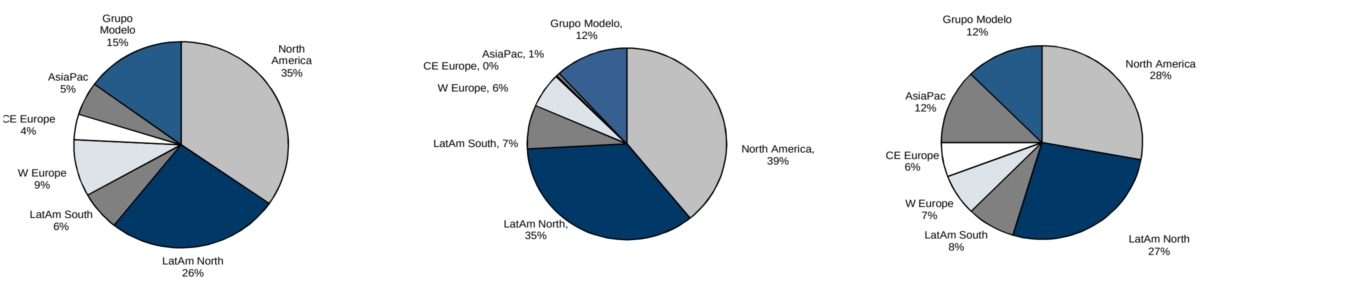
Figure 48: ABI pro-forma company overview (inc consolidation of Grupo Modelo in $millions, unless otherwise stated

ABInbev

AB Inbev (ABI.BR)	**Shareholder structure**
ABI is the largest brewer and one of the biggest consumer products companies in the world. ABI was created when Inbev, merged interest of Interbrew & AmBev, acquired Anheuser Busch in 2008. The company recently agreed to acquire its remaining stake in Grupo Modelo.	ABI is 52.5% owned by a consortium of family companies. In turn ABI owns 62% of AMBEV and 50% of Modelo.

TOTAL COMPANY

Revenues | EBIT | Volumes



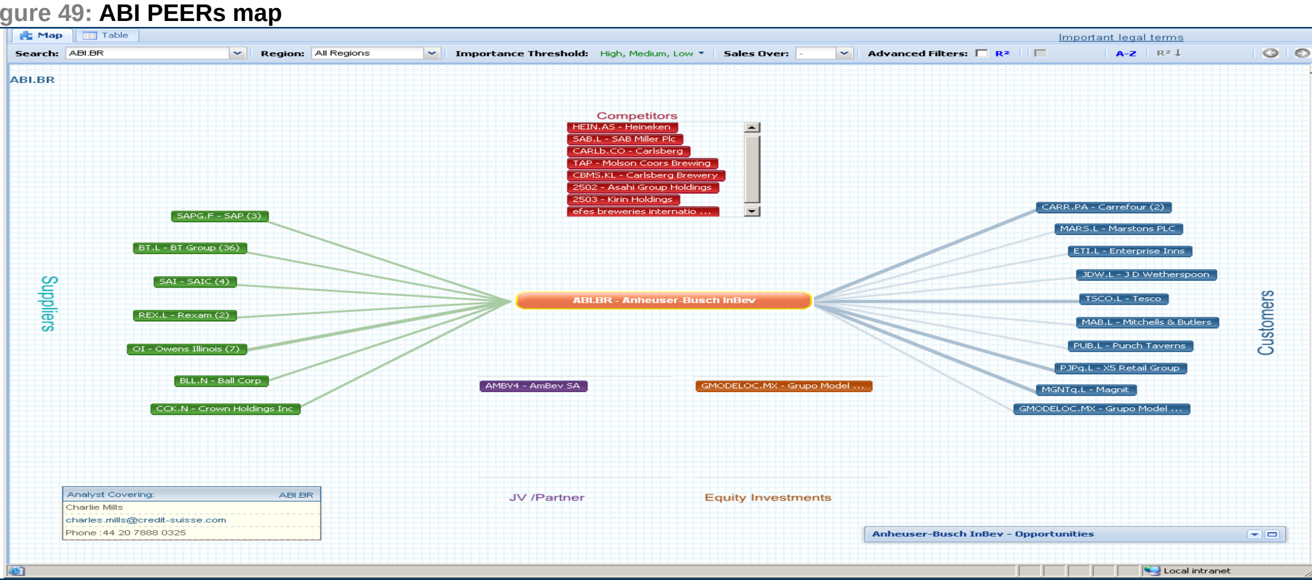
Segment

FY 2011 (y/e Dec)	North America	LatAm North	LatAm South	W Europe	CE Europe	AsiaPac	Grupo Modelo	Other	Total Segment
Total volumes (mHL)	125	120	35	31	26	56	56	7	448
% of total volume	28%	27%	8%	7%	6%	12%	12%	2%	
Revenue ($ m)	15,304	11,524	2,704	3,945	1,755	2,317	6,608	1,496	44,157
% of total revenue	35%	26%	6%	9%	4%	5%	15%	3%	
EBIT (underlying)	5,710	5,118	1,081	856	21	86	1,732	-264	14,340
EBIT margin - %	37.3%	44.4%	40.0%	21.7%	1.2%	3.7%	26.2%		32.5%
% of total EBIT (ex other)	39%	35%	7%	6%	0%	1%	12%		
Key Markets	USA, Canada	Brazil, Peru, Dominican Republic	Argentina, Bolivia, Paraguay	UK, Germany, Belgium	Russia, Ukraine	China	Mexico, US		US, Brazil, China
Main Brands	Bud Light, Budweiser	Skol, Brahma, Antarctica	Quilmes	Stella Artois, Beck's, Jupiler	Klinskoye, Chernigivske	Harbin, Sedrin, Budweiser	Corona, Modelo Especial, Victoria		Bud Light, Skol, Budweiser
Competitors	MillerCoors, Heineken	Kirin, Heineken	CCU, SAB	Heinken, Carlsberg	Carlsberg, SAB	SAB, Heineken, Carlsberg	Heineken		
CS estimated economic market share	48%	42%	49%	22%	24%	11%	60%		37%

Source: Company data, Credit Suisse estimates

PEERs map

Figure 49: ABI PEERs map



Source: Credit Suisse PEERs; PEERs is a global database that captures unique information about companies within the Credit Suisse coverage universe based on their relationships with other companies – their customers, suppliers and competitors. The database is built from our research analysts' insight regarding these relationships. Credit Suisse covers over 3,000 companies globally. These companies form the core of the PEERs database, but it also includes relationships on stocks that are not under coverage.

Financial Model

Figure 50: ABI income statement
in $millions, unless otherwise stated

	2011	2012E	2013E	2014E
Revenue	39,045	39,801	48,821	51,914
EBITDA	15,357	15,765	19,054	20,565
Depreciation & amortisation	-2,750	-2,762	-3,247	-3,452
EBIT	12,607	13,003	15,807	17,112
Exceptional items	-278	24	0	0
EBIT - reported	12,329	13,027	15,807	17,112
Net financial expense	-2,597	-1,870	-2,056	-1,806
Exceptional finance expense	-540	0	0	0
Share of profit from associates & JVs	623	690	0	0
Clean PBT	10,633	11,824	13,751	15,307
PBT	9,815	11,848	13,751	15,307
Underlying tax expense	-2,070	-2,100	-2,888	-3,521
Tax on exceptionals	214	-11	0	0
Total tax expense	-1,856	-2,110	-2,888	-3,521
Effective tax rate - %	20%	19%	21%	23%
Normalised effective tax rate - %	21%	19%	21%	23%
Clean profit after tax	8,563	9,724	10,864	11,786
Profit after tax	7,959	9,737	10,864	11,786
Minority interest	-2,104	-2,311	-2,542	-2,720
Other items	-10	-2	0	0
Clean net income	6,449	7,411	8,321	9,066
Net income	5,855	7,426	8,321	9,066
Clean EPS - fully diluted	4.00	4.58	5.13	5.58
Clean EPS - basic	4.04	4.64	5.19	5.65
EPS - fully diluted	3.63	4.59	5.13	5.58
EPS - basic	3.67	4.65	5.19	5.65

Source: Company data, Credit Suisse estimates

Figure 51: ABI balance sheet

in $millions, unless otherwise stated

	2011	2012E	2013E	2014E
Non-current assets				
Goodwill	51,302	51,302	72,302	72,302
Other intangible assets	23,818	23,818	23,818	23,818
PP&E	16,022	17,781	25,939	26,640
Investments in associates & JVs	6,696	6,901	0	0
Other investments	254	254	254	254
Receivables	1,339	1,339	1,339	1,339
Deferred tax assets	673	673	673	673
Total	100,104	102,067	124,325	125,026
Current assets				
Inventories	2,466	2,514	3,083	3,279
Trade receivables & other	4,433	4,519	5,543	5,894
Cash and cash equivalents	5,320	5,320	5,320	5,320
Other investments	103	103	103	103
Assets held for sale	1	1	1	1
Total	12,323	12,457	14,050	14,597
Current liabilities				
Borrowings	-5,567	-2,019	-2,019	-2,019
Trade payables	-13,337	-13,595	-15,553	-16,435
Provisions	-241	-241	-241	-241
Other liabilities	-499	-499	-499	-499
Total	-19,644	-16,354	-18,312	-19,194
Non-current liabilities				
Borrowings	-34,598	-33,361	-43,127	-37,943
Employee benefits	-3,440	-3,240	-3,040	-2,840
Provisions	-874	-874	-874	-874
Deferred tax liabilities	-11,279	-11,279	-11,279	-11,279
Trade & other payables	-1,548	-1,548	-1,548	-1,548
Total	-51,739	-50,302	-59,868	-54,484
Net assets	41,044	47,868	60,195	65,944
Equity				
Share capital	19,291	19,291	19,591	19,891
Reserves	381	381	381	381
Retained earnings	17,820	24,213	35,767	40,709
Minority interests	3,552	3,983	4,456	4,963
Total	41,044	47,868	60,195	65,944

Source: Company data, Credit Suisse estimates

Figure 52: ABI cash flow

in $millions, unless otherwise stated

	2011	2012E	2013E	2014E
EBIT	12,607	13,003	15,807	17,112
Depreciation & amortisation	2,750	2,762	3,247	3,452
Other non-cash items	441	300	300	300
Share options	203	100	100	100
Other costs	-622	24	0	0
Cash flow from operations before WC	15,379	16,189	19,454	20,965
Change in working capital	1,409	125	364	335
Change in provision & employee benefits	-710	-500	-500	-500
Cash from operations	16,078	15,814	19,319	20,800
Net interest paid	-2,304	-1,713	-1,756	-1,506
Taxes paid	-1,694	-2,110	-2,888	-3,521
Dividend received	406	485	538	0
Cash flow from operating activities	12,486	12,476	15,213	15,773
Capital expenditure	-3,376	-3,284	-3,906	-4,153
Free cash flow	9,110	9,192	11,308	11,620
Asset disposals	159	0	0	0
Acquisitions	-504	-1,237	-15,885	0
Disposals	454	0	0	0
Other investments	536	0	0	0
Other cash from investing activities	645	-1,237	-15,885	0
Share issues/(buybacks)	155	0	300	300
Dividend paid	-3,088	-4,407	-5,731	-6,737
Other	-1,505	0	0	0
Cash from financing activities	-4,438	-4,407	-5,431	-6,437
Borrowings from acquisitions	0	0	0	0
Exchange rate impact & other adj	56	0	0	0
Other	-357	0	0	0
Decrease/(increase) in net debt	5,016	3,548	-10,008	5,184

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 09 Jul 12)*
Anheuser-Busch InBev (ABI.BR, Eu62.52, NEUTRAL, TP Eu67.00)
Heineken (HEIN.AS, Eu42.21, UNDERPERFORM, TP Eu39.00)
Modelo (GMODELOC, peso121.28, NEUTRAL, TP peso87.50)
SAB Miller Plc (SAB.L, 2630 p, OUTPERFORM, TP 2,900.00 p)

Disclosure Appendix

Important Global Disclosures

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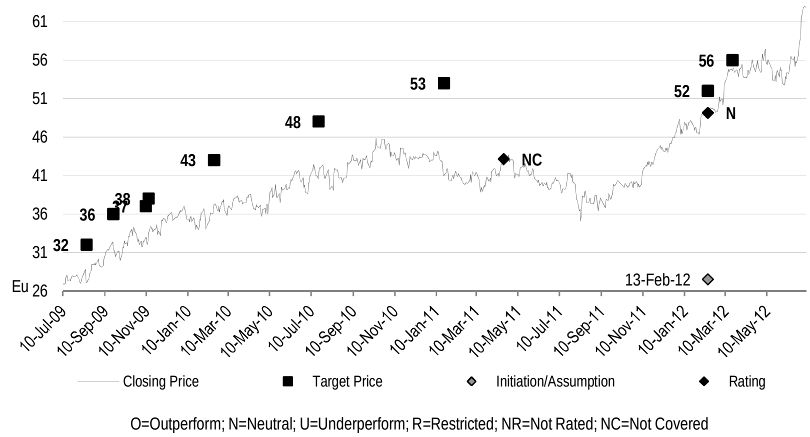
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for ABI.BR

ABI.BR Date	Closing Price (Eu)	Target Price (Eu)	Rating	Initiation/ Assumption
14-Aug-09	27.165	32		
22-Sep-09	31.5	36		
09-Nov-09	32.995	37		
13-Nov-09	33.57	38		
17-Feb-10	37.27	43		
21-Jul-10	41.48	48		
21-Jan-11	41.02	53		
19-Apr-11	43.14		NC	
13-Feb-12	49.13	52	N	X
20-Mar-12	54.6	56		



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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
Outperform/Buy*	48%	(60% banking clients)
Neutral/Hold*	41%	(57% banking clients)
Underperform/Sell*	9%	(50% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for (ABI.BR)

Method: Our target price is based on an adjusted present value, which assumes a i) 9.5% cost of equity ii) revenue growth as per our forecasts out to 2016, then declining to a terminal growth rate of 2.5% in 2026 iii) 2017-26E margins growing at 15bps per annum. We value the Ambev minority and associate stake in Grupo Modelo in line with their current market valuations

Risks: Risk to our target price include i) lower than expected unemployment in the US ii) unfavourable weather conditions in Brazil iii) M&A activity

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Credit Suisse provided investment banking services to the subject company (ABI.BR) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (ABI.BR) within the past 12 months.

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